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IMF Executive Board Approves US\$12.53 Million PRGF Arrangement for the Republic of Congo and Interim Assistance under the Enhanced HIPC Initiative

The Executive Board of the International Monetary Fund (IMF) today approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for the Republic of Congo in an amount equivalent to SDR 8.46 million (about US\$12.53 million and 10 percent of quota) in support of the government's economic program for 2008-2011. The first disbursement under the PRGF arrangement will be in an amount equivalent to SDR 1.21 million (about US\$1.79 million).

In addition, the Board granted interim assistance under the Enhanced Initiative for Heavily Indebted Poor Countries (HIPC) in an amount equivalent to SDR 77,000 (about US\$ 0.11 million).

Following the Executive Board's discussion on the Republic of Congo, Mr. Murilo Portugal, Deputy Managing Director and Acting Chairman, stated:

“Strong growth in the non-oil sector of the Congolese economy continued and the balance of payments strengthened considerably in 2008. These positive developments were supported by better policy implementation, including the successful implementation of the staff-monitored program during the first semester of this year. The program’s fiscal targets were comfortably met and satisfactory progress was made in structural reform. The authorities also continued to strengthen governance and transparency related to the use of public resources.

“The authorities took a number of measures to mitigate the impact of high food and fuel prices earlier this year, including some tariff and tax reductions, and additional pro-poor and capital spending. The drop in world oil prices will help to reduce general fuel subsidies and could facilitate the authorities’ intended move to a new pricing mechanism.

“Against the background of the global economic slowdown, Congo faces a number of challenges to accelerate growth and alleviate poverty, including the need to improve

international competitiveness, raise output growth through diversification, and consolidate the fiscal position. The authorities' medium-term economic and financial program, supported by a new arrangement under the Fund's Poverty Reduction and Growth Facility, should help to address these challenges.

"The authorities' program targets a gradual but continued fiscal consolidation, recognizing the finite horizon for oil production. A decline in the basic non-oil primary fiscal deficit of about 3 percent per year over the medium term would allow scaling up of public investment to address urgent needs, while ensuring a sustainable fiscal path. The reduction in the basic non-oil primary deficit is projected to come from cuts in non-priority spending and domestic revenue mobilization.

"The authorities' structural reform agenda is designed to support broadening of the economic base, bolster Congo's competitiveness, and strengthen transparency. This agenda includes: further reform of public financial management (PFM) through the timely and comprehensive implementation of a PFM action plan established with the assistance of Congo's development partners; enhanced public investment management; adoption and implementation of a financial sector strategy to deepen intermediation; improved operating and financial performance of state-owned enterprises in the oil sector; trade liberalization; and better governance and transparency with regard to the use of public resources more generally.

"Congo's external debt indicators have improved recently but the country has not yet achieved external sustainability. The authorities' program aims to support the regularization of relations with all creditors, the implementation of a new debt management strategy in line with Central African Economic and Monetary Community (CEMAC) regional guidelines—which include access to foreign financing only on highly concessional terms—and debt relief under the Enhanced Initiative for Heavily Indebted Poor Countries (HIPC). In this context, satisfactory performance under the PRGF arrangement and timely implementation of the HIPC triggers are essential," Mr. Portugal said.

Background

The Republic of Congo has experienced strong economic growth in 2008, reflecting the resumption of oil production after an oil-platform accident as well as solid non-oil activity, driven by the telecommunication, construction, and transport sectors. Real GDP growth is projected to be about 7.6 percent in 2008. In 2007 real GDP contracted by 1.6 percent due to a sharp decrease in oil production. Higher food and energy costs pushed up consumer price inflation in the first half of 2008, reaching 5.7 percent in the 12 months through June 2008. Inflation is expected to moderate in the second half of 2008. The fiscal policy performance has improved recently, after a period of budget slippages and delays in implementing structural reforms. Although the basic, non-oil, primary fiscal deficit dipped to 55.7 percent of non-oil GDP in 2007, based on present policies it should improve significantly this year. Driven by high oil exports, the current account is projected to swing from a deficit of 25 percent of GDP last year to a surplus of 0.6 percent of GDP in 2008. Congo's external public debt has declined sharply in the past several years, partly as a result of Paris Club debt rescheduling and debt relief from London Club creditors under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

Program Summary

The authorities' medium-term economic program is designed to support balanced growth, low and stable inflation, as well as fiscal and external sustainability. The macroeconomic framework for 2008-11 aims to achieve:

- Annual real GDP growth in the non-oil sector of about 8 percent.
- Low and stable inflation of about 3 percent per year.
- An improvement in the external position with the current account moving into surplus this year, and a rising surplus in the medium term.

Medium-term policies to achieve these objectives include:

- Gradual, but continued fiscal consolidation to ensure steady progress toward long-term sustainability, recognizing the finite horizon for oil production.
- The regional central bank's focus on keeping inflation low within the Central African Economic and Monetary Community (CEMAC).
- Further opening of the economy through trade liberalization.
- Structural reforms in areas critical to the success of the program, including strengthening of public financial management, improvement in the financial and operating performance of state-owned enterprises, and adoption and implementation of the financial sector strategy.

Republic of Congo: Selected Economic and Financial Indicators, 2006–11

	2006	2007	2008	2009	2010	2011
		Est.			Projection	
Production and prices			(Annual percentage change)			
GDP at constant prices	6.2	-1.6	7.6	12.7	12.3	1.3
Oil	6.8	-17.2	9.0	23.1	21.6	-10.2
Non-oil	5.9	6.6	7.0	8.5	8.0	7.4
GDP at current prices	25.9	-9.4	35.2	-5.1	27.1	0.1
GDP deflator	18.5	-7.9	25.6	-15.8	13.2	-1.2
Consumer prices (period average)	4.7	2.6	4.5	4.2	3.0	3.0
Consumer prices (end of period)	8.1	-1.7	6.0	3.0	3.0	3.0
External sector						
Exports, f.o.b. (CFA francs)	26.7	-13.3	34.7	0.9	35.2	-4.0
Imports, f.o.b. (CFA francs)	52.1	20.8	1.5	12.1	17.5	6.3
Export volume	7.8	-18.8	8.7	33.3	21.3	-9.8
Import volume	40.0	20.0	-10.1	12.5	13.8	4.1
Terms of trade (deterioration -)	0.8	0.6	13.7	-22.2	5.7	-2.4
Nominal effective exchange rate (end of period)	-0.4	5.1	...	...	...	...
Real effective exchange rate (end of period)	1.6	3.1	...	...	...	...
Money and credit			(Percent of beginning-of-period broad money)			
Net domestic assets	-80.3	-5.4	-139.7	-72.9	...	...
Domestic credit	-82.6	-3.2	-139.7	-72.9	...	...
Central government	-84.4	-3.9	-149.5	-78.8	...	...
Credit to the economy	1.9	1.1	9.9	6.0	...	...
Broad money	47.9	7.4	20.0	13.3	...	...
Velocity of broad money (Non-oil)	1.9	1.9	1.8	1.8	...	...
Investment and saving			(Percent of GDP)			
Gross national saving	24.5	0.1	10.6	28.9	35.0	33.7
Public	27.1	22.8	35.5	31.8	36.9	38.4
Private	-2.5	-22.7	-24.9	-2.9	-1.9	-4.7
Gross investment	22.9	26.2	20.8	27.7	24.1	25.0
Public	9.0	10.6	8.6	12.9	11.5	12.4
Private	13.9	15.6	12.1	14.8	12.6	12.6
Current account balance ³	1.6	-26.1	0.6	1.2	10.9	8.7
External public debt (end of period)	81.5	72.9	51.9	54.7	43.3	44.6
Central government finances			(Percent of non-oil GDP)			
Revenue and grants	141.5	113.5	155.5	121.1	142.4	132.6
Oil revenue	120.6	92.3	133.2	97.0	116.4	103.9
Nonoil revenue and grants	20.9	21.2	22.3	24.1	26.0	28.7
Total expenditure	87.2	84.2	72.4	73.3	69.1	65.5
Current	58.5	56.3	45.1	39.1	34.4	31.5
Capital (and net lending)	28.7	27.9	27.4	34.2	34.7	34.0
Overall balance (deficit -, commitment basis) ¹	54.3	29.3	83.1	47.8	73.3	67.1
Primary balance (deficit -) ²	68.6	36.6	90.1	56.9	79.5	70.5
Nonoil primary balance (- = deficit)	-51.3	-55.7	-43.2	-40.2	-36.9	-33.5
			(Percent of exports of goods and services)			
External public debt service (before debt relief)	13.7	10.7	4.5	4.2	3.0	1.9
External public debt	99.1	88.8	64.8	63.1	46.6	49.7
			(In percent of total government revenue excluding grants)		(Percent of total)	
External public debt service (before debt relief)	25.3	20.6	7.4	8.1	6.0	3.6
External public debt	183.9	170.8	106.8	121.2	93.3	93.5
			(Billions of CFA francs, unless otherwise indicated)			
Gross official foreign reserves	920.4	983.1	2,078.3	2,801.6	4,231.9	5,755.5
(Months of imports, f.o.b.)	10.6	9.3	19.4	23.4	30.1	38.5
(Percent of GDP)	22.8	26.8	42.0	59.6	70.8	96.2
Nominal GDP	4,042.6	3,664.4	4,952.7	4,701.8	5,976.5	5,984.1
World oil price (U.S. dollars per barrel)	64.3	71.1	99.8	68.0	75.0	79.3
Oil production (Millions of barrels)	98.7	81.7	89.0	109.6	133.2	119.6
Nominal effective exchange rate (end of period, percent change)	-0.4	5.1	...	...	...	...
Real effective exchange rate (end of period, percent change)	1.6	3.1	...	...	...	...

Sources: Congolese authorities; IMF staff estimates and projections.

1. Including grants.

2. Primary revenue (excluding grants) minus non-interest current expenditure minus domestically financed capital expenditure lending.

3. Including public transfers.